



## The Audit Plan for Lancashire County Council

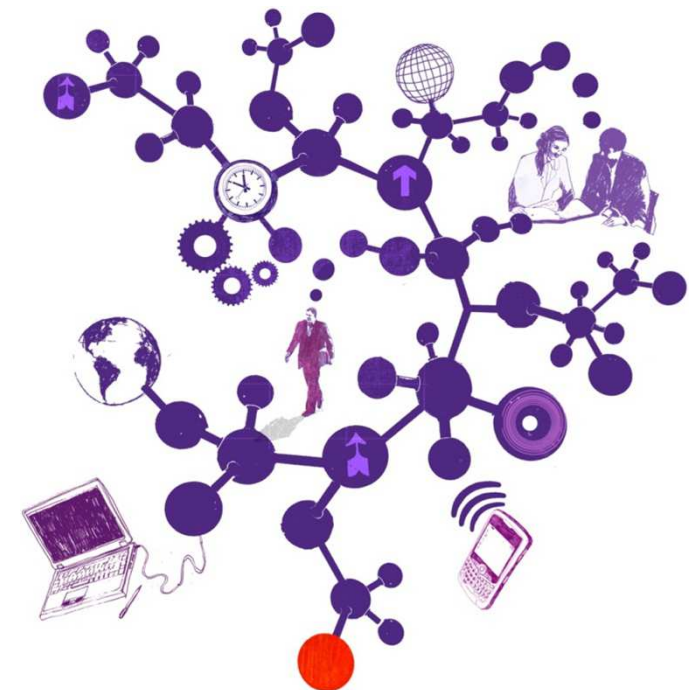
**Year ended 31 March 2014**

11 June 2014

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# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. Financial challenges

- Having taken £220m of annualised costs out of the budget over the three years to March 2014 it needs to reduce its annual costs by a further £300m over the next 4 years.

### 2. One Connect Limited (OCL)

- The Council has renegotiated its strategic partnership with BT, bringing back in house a range of services previously provided by OCL.
- ICT, revenue and benefits and payroll services remain within the partnership and will be provided by the newly formed BT Lancashire Services, a wholly owned BT subsidiary.

### 3. Waste Management Private Finance Initiative (PFI)

- The Council has a 25 year, £2 billion Waste Management PFI contract. The Council continues to face significant performance and financial challenges around the contract

### 5. Changes in financial systems

The Council:

- implemented a new fixed assets accounting system in October 2013; and
- completed the migration of PPE information to the new fixed assets system to be used for 2013/14 capital accounting closedown and financial reporting purposes.

Infrastructure assets are unaffected and continue to be accounted for on a historic cost basis

## Our response

We will monitor the progress the Council is making in identifying and delivering the savings plans and organisational changes needed to remain financially resilient

We will consider whether there are any issues arising from the new contractual arrangements that impact on our VfM conclusion.

Through our VfM conclusion work we will refresh our previous understanding of the arrangements for managing and mitigating financial performance risks around the contract and assess their effectiveness

As part of our audit coverage we will:

- document and walkthrough the fixed assets system controls framework, including reviewing arrangements for migrating PPE information to the new system
- assess the overall adequacy of the PPE controls framework for mitigating the risk of material misstatement
- conduct substantive sample testing to obtain assurances that capital accounting disclosures are free from material misstatement

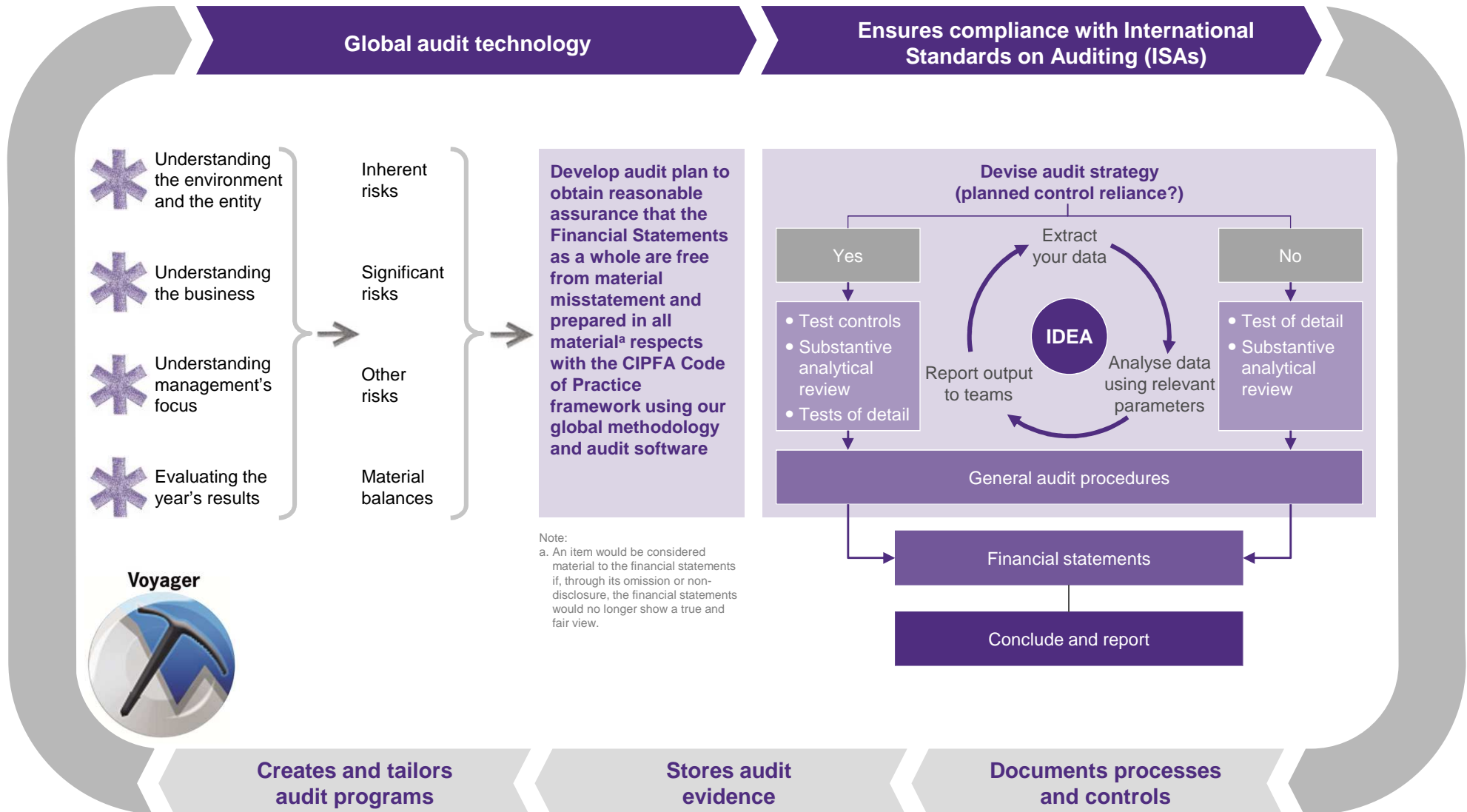
# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements					
<p><b>1. Financial reporting</b></p> <ul style="list-style-type: none"> <li>• Changes to the CIPFA Code of Practice</li> <li>• Clarification of Code requirements around PPE valuations</li> <li>• Changes to NDR accounting and provisions for business rate appeals</li> <li>• Transfer of assets to Academies</li> </ul>	<p><b>2. Legislation</b></p> <ul style="list-style-type: none"> <li>• Local Government Finance settlement</li> <li>• Welfare reform Act 2012</li> </ul>	<p><b>3. Corporate governance</b></p> <ul style="list-style-type: none"> <li>• Annual Governance Statement (AGS)</li> <li>• Explanatory foreword</li> </ul>	<p><b>4. Pensions</b></p> <ul style="list-style-type: none"> <li>• The impact of 2013/14 changes to the Local Government pension Scheme (LGPS)</li> </ul>	<p><b>5. Financial Pressures</b></p> <ul style="list-style-type: none"> <li>• Managing service provision with less resource</li> <li>• Progress against savings plans</li> </ul>	<p><b>6. Other requirements</b></p> <ul style="list-style-type: none"> <li>• The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion</li> <li>• The Council completes grant claims and returns on which audit certification is required</li> </ul>

Our response					
<p>We will carry out work to obtain assurances that:</p> <ul style="list-style-type: none"> <li>• the Council's programme of revaluations are sufficiently up to date to ensure the carrying value of PPE does not differ materially from the fair value at 31 March 2014</li> <li>• the Council's share of NDR income, top up/tariffs and safety net are accounted for correctly</li> <li>• schools are accounted for correctly and in line with the latest guidance</li> </ul>	<ul style="list-style-type: none"> <li>• We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate</li> </ul>	<ul style="list-style-type: none"> <li>• We will review the arrangements the Council has in place for the production of the AGS</li> <li>• We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management</li> </ul>	<ul style="list-style-type: none"> <li>• We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan</li> <li>• We will undertake a review of Financial Resilience as part of our VFM conclusion</li> </ul>	<ul style="list-style-type: none"> <li>• We will carry out work on the WGA pack in accordance with requirements</li> <li>• We will certify grant claims and returns in accordance with Audit Commission requirements</li> </ul>

# Our audit approach



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## Significant risks

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<ul style="list-style-type: none"><li>• Review and testing of revenue recognition policies</li><li>• Testing of material revenue streams</li><li>• Review of any unusual significant transactions</li></ul>
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<ul style="list-style-type: none"><li>• Review of accounting estimates, judgements and decisions made by management</li><li>• Testing of journal entries</li><li>• Review of unusual significant transactions</li></ul>

## Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description of risk	Work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>• Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• Sample testing of operating expenses and year end creditors / accruals including agreement to source documents</li> </ul>
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<ul style="list-style-type: none"> <li>• Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• Substantive testing to obtain assurances for audit opinion purposes that payroll transactions have been properly accounted for throughout the year of account</li> <li>• Sample testing of employee remuneration expenses, including employer contributions</li> <li>• Completion of comprehensive proof in total review procedures to assess whether employee remuneration for the Council is in line with expectations</li> <li>• Review of senior officer remuneration disclosures and substantive testing to supporting records</li> </ul>
Property, Plant & Equipment	<ul style="list-style-type: none"> <li>• Revaluation measurement not correct</li> </ul>	<ul style="list-style-type: none"> <li>• Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• Sample testing of revaluation adjustments, including agreement to valuation report</li> </ul>

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# Value for money

## Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The Council has proper arrangements in place for securing financial resilience	The Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion.

We will also consider the implications for our VfM conclusion of developments relating to:

- on-going internal and police investigations in respect of governance and procurement; and
- actions being taken by the Council to deal with the financial pressures in respect of the waste management PFI contract.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

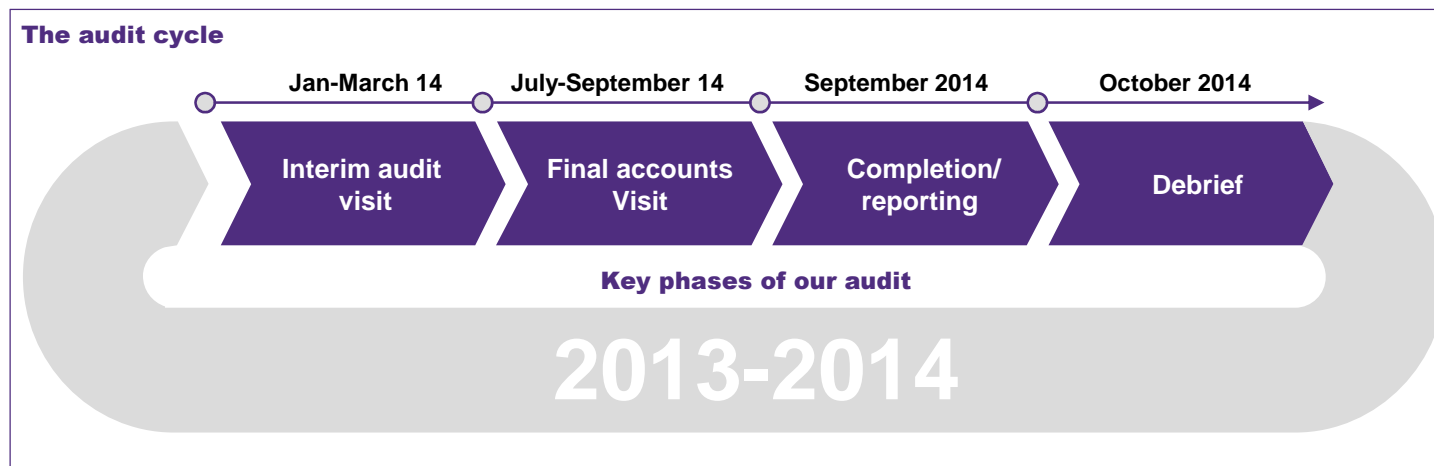


# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	<b>Work performed and findings</b>	<b>Conclusion</b>
<b>Walkthrough testing</b>	<p>Walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements has been completed for employee remuneration.</p> <p>Work will be completed for operating expenses and property, plant and equipment (PPE) as part of our final account audit.</p>	<p>Our work to date has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>
<b>Review of information technology (IT) controls</b>	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.</p> <p>IT controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review.</p>	<p>The outcome of our journals testing to date was satisfactory. No issues have been identified that we wish to highlight for your attention</p> <p>In order that our journals testing covers the whole financial year we will carry out further 'top up' testing as part of our posts statements opinion audit testing.</p>
<b>Early substantive testing</b>	<p>We have carried out early substantive testing on accounts payables, accounts receivables and employee remuneration (payroll).</p>	<p>The outcome of our transactions testing to date was satisfactory and there are no issues that we wish to highlight for your attention.</p> <p>We will carry out further randomly selected 'top up' test samples for each transaction category to ensure coverage across the whole year of account.</p>
<b>Value for money</b>	<p>We have carried out our initial risk assessment against assessment criteria prescribed in Audit Commission guidance.</p>	<p>We have carried out an initial risk assessment and have no other matters to draw to member's attention at this stage.</p>

# Key dates



Date	Activity
December 13 – January 14	Planning
January – March 2014	Interim site visit
30 June 2014	Presentation of audit plan to Audit Committee
July – mid September 2014	Year end fieldwork
Mid September 2014	Audit findings clearance meeting with the County Treasurer
29 September 2014	Report audit findings to those charged with governance (Audit & Governance Committee)
29 September 2014	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	151,560
Grant certification	1,190
<b>Total fees (excluding VAT)</b>	<b>152,750</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

## Fees for other services

Service	Fees £
Waste management work	15,000 – 20,000 est.

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Our independence is not compromised by the agreed work on waste management since:

- it is restricted to reviewing the financial models used to prepare information and we will not be part of any decision making process
- the work is being conducted by a separate team within Grant Thornton which is overseen by a separate engagement lead

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

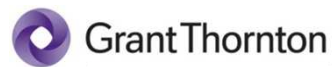
This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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